

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary,
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John Settles, Washington County Judge/Executive
Honorable A. H. Robertson, Washington County Clerk
Members of the Washington County Fiscal Court

The enclosed report prepared by Potter & Company, LLP, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Washington County, Kentucky, for the year ended December 31, 2001.

We engaged Potter & Company, LLP to perform the financial audit of this statement. We worked closely with the firm during our report review process; Potter & Company, LLP evaluated the Washington County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK

FINANCIAL STATEMENT AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2001

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WASHINGTON COUNTY CLERK

Calendar Year 2001

Potter & Company, LLP has completed the Washington County Clerk's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$28 from the prior calendar year, resulting in no excess fees as of December 31, 2001. Revenues increased by \$47,473 from the prior year and disbursements increased by \$47,501.

Report Comment:

- The County Clerk Should Have A Written Agreement To Protect Deposits

**WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK**

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report	1 - 2
Statement of Receipts, Disbursements, and Excess Fees	3 - 5
Notes to Financial Statement	6 - 8
Comment and Recommendation	9
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	10 - 11

INDEPENDENT AUDITOR'S REPORT

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary,
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John Settles, Washington County Judge/Executive
Honorable A. H. Robertson, Washington County Clerk
Members of the Washington County Fiscal Court

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Washington County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary,

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable A. H. Robertson, Washington County Clerk

Members of the Washington County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Have A Written Agreement To Protect Deposits

A handwritten signature in black ink that reads "Potter & Company, LLP". The script is cursive and fluid, with the letters "P" and "C" being particularly large and stylized.

POTTER & COMPANY, LLP

June 26, 2002

WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND EXCESS FEES
Calendar Year 2001

Receipts

State Grants		\$	9,768
State Fees for Services			4,768
Fiscal Court			31,950
Licenses and Taxes:			
Motor Vehicle -			
Licenses and Transfers	\$	267,380	
Usage Tax		649,762	
Tangible Personal Property Tax		653,894	
Licenses -			
Fish and Game		2,183	
Marriage		2,761	
Deed Transfer Tax		27,411	
Delinquent Tax		<u>34,842</u>	1,638,233
Fees Collected for Services:			
Recording -			
Deeds, Easements, and Contracts		14,170	
Real Estate Mortgages		18,628	
Chattel Mortgages and Financing Statements		29,374	
All Other Recordings		9,928	
Charges for Other Services -			
Candidate Filing Fees		700	
Copywork		738	
Postage		<u>3,017</u>	76,555
Other:			
Refunds/Misc/Corrections			1,883
Interest Earned			815
Borrowed Money			<u>9,000</u>
Gross Receipts			\$ <u>1,772,972</u>

The accompanying notes are an integral part of the financial statement.

WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND EXCESS FEES (CONTINUED)
Calendar Year 2001

Disbursements

Payments to State:

Motor Vehicle -

Licenses and Transfers	\$ 215,174
Usage Tax	632,412
Tangible Personal Property Tax	258,903

Licenses, Taxes, and Fees -

Fish and Game	1,825
Delinquent Tax	3,470
Legal Process Tax	10,651
Candidate Filing Fees	360

\$ 1,122,795

Payments to Fiscal Court:

Tangible Personal Property Tax	38,831
Delinquent Tax	2,936
Deed Transfer Tax	26,038

67,805

Payments to Other Districts:

Tangible Personal Property Tax	327,607
Delinquent Tax	18,705

346,312

Payments to Sheriff

482

Payments to County Attorney

5,365

Operating Disbursements and Capital Outlay:

Personnel Services -

Deputies' Salaries	87,568
Part-Time Salaries	1,534

Employee Benefits -

Employer's Share of Social Security	10,884
Employer's Paid Health Insurance	9,300

Contracted Services -

Software Contracts	15,040
Advertising	107
Printing and Binding	11,160

Materials and Supplies -

Office Supplies	8,814
Miscellaneous/Corrections/Bank Charges	624

The accompanying notes are an integral part of the financial statement.

WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND EXCESS FEES (CONTINUED)
Calendar Year 2001

Disbursements (Continued)

Other Charges -			
Conventions and Travel	\$	552	
Dues		400	
Postage		3,317	
Refunds		1,173	
Uncollected Returned Checks		370	
Capital Outlay -			
Office Equipment		<u>6,020</u>	\$ 156,863
Debt Service:			
Loan Repayment			<u>9,000</u>
Total Disbursements			\$ 1,708,622
Disallowed Disbursements			<u>(555)</u>
Total Allowable Disbursements			<u>1,708,067</u>
Net Receipts			64,905
Statutory Maximum			<u>(61,305)</u>
Excess Fees			3,600
Expense Allowance			<u>(3,600)</u>
Excess Fees Due County for Calendar Year 2001			\$ <u><u>-</u></u>

The accompanying notes are an integral part of the financial statement.

WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK
NOTES TO FINANCIAL STATEMENT
December 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting:

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

Basis of Accounting:

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

Cash and Investments:

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.00 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK
NOTES TO FINANCIAL STATEMENT
December 31, 2001

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

NOTE 3 - DEPOSITS

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. The depository institution pledged or provided sufficient collateral of approximately \$97,000. However, in order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These actions have not been taken by the depository institution's board of directors or loan committee and the County Clerk does not have a written agreement with the depository institution securing the Clerk's interest in the collateral.

NOTE 4 - GRANT

The County Clerk received a local records microfilming grant from the Department for Libraries and Archives. The balance as of December 31, 2000 was \$9,768, all of which was expended during 2001. On September 26, 2001 the County Clerk was awarded another microfilming grant for \$10,085. No funds were received or expended on this grant during the year.

NOTE 5 - LEASE

The office of the County Clerk is committed to a lease agreement with Copelco Capital for a copy machine. The agreement requires a monthly payment of \$363 for 60 months to be completed on May 15, 2002. The total balance of the agreement is \$1,449 as of December 31, 2001.

WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK
NOTES TO FINANCIAL STATEMENT
December 31, 2001

NOTE 6 - HEALTH INSURANCE PREMIUMS

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

COMMENT AND RECOMMENDATION

WASHINGTON COUNTY, KENTUCKY
A. H. ROBERTSON, COUNTY CLERK
COMMENT AND RECOMMENDATION
Calendar Year 2001

LAWS AND REGULATIONS:

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of March 31, 2001, the County Clerk had bank deposits of \$116,437; FDIC insurance of \$100,000; and collateral pledged or provided of approximately \$97,000. Even though the County Clerk obtained sufficient collateral of approximately \$97,000, the pledge or provision of collateral was not approved by the board of directors of the depository institution or its loan committee, and there was no written agreement between the County Clerk and the depository institution, signed by both parties, securing the Clerk's interest in the collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response:

Was requested but bank would not comply. We will be assured in future years or choose another bank.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary,

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable A.H. Robertson, Washington County Clerk

Members of the Washington County Fiscal Court

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and the Auditor of Public Accounts and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink that reads "Potter & Company, LLP". The signature is written in a cursive, flowing style.

POTTER & COMPANY, LLP

June 26, 2002

